

HOUSING MARKET DYNAMICS: NEW INSIGHTS FROM THE INDICATOR APPROACH

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ABSTRACT

The housing market and financial stability are inextricably linked. Indeed, insights on housing market risks can influence the financial stability of a country or region, passing critical impacts to the real economy as a whole. Therefore, the purpose of the present study is to model the oscillations of the housing market to explain and predict the boom-bust patterns in the housing cycle. We focus on the shifts in the fundamental driving forces of the housing cycle that are anticipated by a set of macro and micro foundations of housing behaviors. We explore the possibility that the waves in the housing market can be captured in information needed for policy planning, risk monitoring, and community development, as well as the delivery of affordable housing. In this context, a non-parametric indicator construction framework inspired by the National Bureau of Economic Research (NBER) of the United States was applied to develop the housing cycle indicator (HCI), with the aim of predicting the cyclical fluctuation in the housing market in the northern territory of Borneo Island. The constructed HCI correctly predicted the boom-bust patterns in the housing cycle and the average leading period was at best 9.75 months. The forward-looking attribute of the HCI suggests that it is a sound policy tool to foresee the housing market outlook in the near future.

INTRODUCTION

The real estate market in general and the housing market in particular, has long been acknowledged as a crucial source of risk to financial stability and economic growth. The importance of housing is not limited to investment opportunity but it is necessary to strengthen homeownership as well as community development. Rossi and Weber (1996) claimed that homeownership is positive for owners as they are more likely to have greater self-satisfaction and confidence. Hence, they are likely to contribute to the development of the community. Rohe and Stewart (1996) also supported homeowners being more active in civic affairs and maintaining their properties to a higher standard. These activities, in turn, are thought to lead to more stable and greater social and economic development. Therefore, encouraging more homeownership in the country is beneficial for the society.

In accordance with Wong et al. (2015), Malaysia is well off as an emerging country, making significant headway toward a globalized and liberalized world; however, its economy is unsurprisingly open to historic external influences and hence conveys immense risk and uncertainty to the domestic market. In Borneo, the real estate market has been regarded as an asset class for investment. Nevertheless, the nation does not have many appropriate hedging instruments to account for its own risk (Jin & Grissom, 2008). Therefore, housing prices have been studied from many viewpoints, such as demand, supply, financial institutions, policy makers, and related professionals.